

**PILOT LOCAL GOVERNMENT
PARTNERSHIP PROGRAM**

**ASSESSING, FINANCING AND
DEVELOPING AN INDUSTRIAL
PARK**

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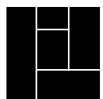


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PILOT LOCAL GOVERNMENT PARTNERSHIP PROGRAM

ASSESSING, FINANCING AND DEVELOPING AN INDUSTRIAL PARK

BACKGROUND

Under the auspices of CDC International, Michael J. Dunigan was assigned to advise the municipality of Kutno, Poland in its efforts to develop an industrial park. Mr. Dunigan has a twenty-five year history of institutional investment and development of industrial and office properties in the United States and Mexico. His work was performed from 5 October through 31 October primarily in Kutno with specific meetings in Warsaw. In preparation of this analysis a number of reports and documents were reviewed and may be referred to throughout this summary. In addition, a number of meetings were held with: International Agencies, State Agencies, Local Officials, businessmen and consultants.

The Kutno Agro-Industrial Park is approximately 180 gross hectares and after allocating approximately 30 hectares for roads, utility easements and greenbelts there is 150 net hectares for development. These figures are only estimates, in that the status of the project is in its infancy and engineering and site plans have not been completed.

Although the Kutno Agro-Industrial Park ("KAIP") has had a long history, it is the intent of this advisor to comment on:

- The strengths and weaknesses of the project
- What commitments must be made by the city council and community
- What specific steps must be taken to move the project forward
- Discuss phasing and other land -use issues to minimize risk and maximize the goals of the community (i.e. creation of employment opportunities)
- Discuss alternative financing methods

In addition, pursuant to a meeting with Mayor Debich, the advisor will provide an outline "financial package" to be utilized in potential loan packages when specific engineering data is gathered.

The Kutno Agro-Industrial Park is a large and ambitious project, particularly for a rural community of 50,000 population. However, it is this type of project which could move the city from a perceived declining trend to a prosperous community.

Assuming a solid commitment from the city council, the positive leadership and persistence of a "Development Team" specific support from the business community, and patience from the community-at-large, the KAIP can position itself to be a catalyst for positive change in the community.

Throughout the assignment virtually everyone asked the question ... "is the project feasible?" In answering the question one must first determinate the "goals of the community" now and in the future. The goal as defined is quite clear..." it is to create employment opportunities for citizens of the Kutno region which in turn will raise the standard of living for the entire community." If the answer was ... "to make a profit on the

Since the objective is to “create employment opportunities” one must analyze the strengths and weaknesses of Kutno and KAIP in attracting companies to locate in the area. This is quite adequately done in the “KAIP-Marketing Plan” dated, 1997. Highlighting some of the key points will help us focus on the strengths and discuss how to mitigate some of the weaknesses.

STRENGTHS

- **Location.** Center of Poland (within 3 hours drive to major cities): this is a key advantage because many companies who supply multiple markets or businesses prefer to locate in a central location. sale of land”, I would seriously question the feasibility of the project (please see “Proforma Projections” in the Financial Package).

- **Direct Market Proximity.** 15 million population within 180 km. radius: a major advantage for those consumer product companies looking to sell to the local market.

- **Highways Kutno (and KAIP) located on major east/west (A-2) and major north/south (A-1) highways.** since 80-90 percent of all goods are currently moved via roadway this is an obvious advantage. The planing of the new superhighway system calls for the north/south superhighway to pass within close proximity (4 km.) of KAIP; however, the east/west superhighway is to be diverted (35 km) south of KAIP, which in the future could be a major disadvantage.

- **Labor.** Abundant supply of unskilled workers with a relatively low wage level (\$USD 250-300 per month) when compared to the global marketplace (particularly Western Europe). Given its high proportion of unskilled labor, KAIP should position itself market to “assembly” or “light manufacturing” in labor intensive industries or product lines.

- **Pro-Business Authorities.** Companies want to be welcomed and supported in their potential new home. Kutno currently has this reputation and it should be expanded.

- **Rail Junction.** As goods are increasingly moved via “sea/rail/land containerization” the revitalization of Kutno’s rail junction could be a definite plus for the region; however, it should not be overrated if allocation of city resources are required.

- **Greenfield Sites with Infrastructure.** Companies that have selected central Poland in which to locate, want to move quickly, and those cities who have sites “ready-to-go” will have a definite advantage.

WEAKNESSES

- **Competition.** There appears to be keen competition from other cities; however, there is no quantitative information available. It should be the “Development Team’s” immediate responsibility to determine specific sites, prices, and infrastructure availability in all communities that may be competitive.

■ **Lack of Focus.** Given the complexity, all encompassing (financial, marketing, engineering, etc.) and time consuming nature of the project, it is imperative that a person or preferably a “Development Team” be contracted with, to be the focal point in handling all matters of the project. Attached is a sample of “The Role of the Development Team” which defines the responsibilities of the Development Team.

■ **City Council Commitment.** As stated, KAIP is a large undertaking and must be supported both legally (via resolution) and economically, via contract with “Development Team” and setting forth an appropriate annual budget for the development and marketing of the project.

■ **No Economic Zone.** Some cities (such as Lodz) have these zones which are quite beneficial to specific companies providing 10 year “tax holidays” if they are major employers. Any offsetting “benefits” that the Kutno gmina could offer could mitigate this competitive factor.

■ **Lack of Awareness.** Although there is some recognition of Kutno within the “sphere of influence” of Kutno (i.e. 180 km), there appears to be a lack of awareness beyond this point with some decision makers; and a definite lack of awareness of KAIP. This can be mediated with a strong and persistent marketing and public relations program.

■ **Lack of Financing.** Knowing that the city currently does not have funds to undertake the complete development costs the advisor has recommended a phasing program. He will also present some alternative funding suggestions later in this report; however, it will be necessary to expend certain engineering and pre-development costs to move the project forward.

■ **Realignment of East/West Superhighway.** On a long term basis, this would be my main concern since so many goods are moved from West to East. In talking with the State Agencies this project is 10 to 15 years away—therefore, Kutno has a “window of opportunity” to capitalize on its location adjacent to A-2, and could mitigate the realignment effect by lobbying the State to build the section of the North/South Superhighway from Kutno to Lodz to coincide with the completion of the East/West Superhighway to Lodz.

As we all know, it is easy to criticize any project but it is my belief that the strengths outweigh the weaknesses, and many of the weaknesses can be overcome with some diligent effort. Also, the fact that most of the property has already been acquired is a critical factor.

The development process can be broken down into three “ever-present” elements; namely: financing, land use/technical issues, and marketing. The Development Team must “eat, drink, and sleep” the project. Since all of the elements are happening simultaneously—and constantly changing—the person in charge must be entrepreneurial, a positive catalyst, and have the support of the community.

FINANCING AND PHASING

These elements go hand-in-hand, since by phasing the project we are minimizing the financial burden and creating a “track record” which will enhance the borrowing capacity of KAIP. Given limited engineering

information, and some land-use information I have attached a phasing plan which divides the project into four phases. Phase I contains approximately 25 hectares and the only infrastructure required (this should be confirmed by engineers) is paving the road, lighting and landscaping. I would like to emphasize the landscaping since you are setting the "tone" for the project. There should be a new road—paved to Western European standards—with a minimum of 3-4 meters of grass landscaping as frontage to the specific lots for sale.

The second phase is approximately 60 hectares which is on the south side of, and fronts on A-2. It appears a good portion of infrastructure costs may be incurred at this time, particularly if a new electrical substation must be built at the city's cost. This cost normally would be borne by the utility and Poland's method of providing electricity may change in the next few years. Interior circulation roads and infrastructure will definitely have to be built. Pre-engineering should be completed immediately and final engineering as soon as the first couple lots in phase I have been sold. Construction should begin when 50 percent of lots in phase I have been sold. Phase II is the world's window to Kutno, so the quality of development and companies located in this area will be critical. The Land Planner should also create areas on both sides of A-2 for service/commercial uses: hotels, restaurants, etc. Phase III and IV are designated and the configuration and timing depend upon the success of the prior phases. An estimate of "Development Costs" has been prepared based upon the past experience of the advisor and using U.S. costs. Therefore, it is critical that an civil and engineering plan be completed (depending upon the quality a pre-engineering plan could be utilized) and that estimates are gathered by the development team and utilized in the format presented.

Alternate Methods of Financing. One form of financing infrastructure employed in the United States is the creation of an "assessment district" which is a legal entity (similar to a sub-zone of the city). Once the zone (KAIP) is created and infrastructure costs determined, the property owners vote whether to float a bond issue to pay for the infrastructure. Sometimes the bond issue is guaranteed by the city, but the real estate is the underlying security for the bond owners and the bonds are paid by collecting "assessments"—typically an addition to the real estate tax bill—from the property owners. It takes a vote of 60 percent of the property owners to proceed with the "assessment district" and since the city will be the major property owner it could be a good financing vehicle.

Another form of financing for specific infrastructure (such as utilities) could be the use of "hook-up" fees. The city could float a bond issue, complete (as an example) the electrical substation and as companies purchase land they would pay a "hook-up" fee which would be utilized in the payment of the bonds. I understand after talking to consultants at the Pilot LGPP that one of these methods has been employed in Poland. An attorney's name given to me that has worked on these issues is Mr. Gerard Sadoch (022) 827 0194 or Mr. Oles Wieslaw (012) 226 656.

If a particular type of a financing has not been utilized before, it does not mean it cannot be done—the key word is *be creative*. Also, networking with other communities and consultants may help in coming up with solutions.

LAND USE AND TECHNICAL ISSUES

Given the type of labor in the area, primarily unskilled, I anticipate the type of company that will be most interested in the KAIP will be assembly and light manufacturing. These are companies or industries that are labor intensive which is exactly what Kutno would like to see. It is also envisioned (and desired) that the size of company will be small to mid-size, that is, companies which would employ 100 to 400 people each. Given this information the lot size will range between 2 and 10 hectares with an average size of 2.5 hectares. The total employment upon completion of the park could easily exceed 15,000. This fact raises some interesting questions for the Land Planner to consider. Probably the most important is: How people get from the north side of A-2 (where most of the residential area is currently located) to the south side of A-2 where KAIP is located, knowing that 12,000 vehicles traverse A-2 daily?

When one starts to think on a long term basis other items such as: services, hotels, recreation, fire and security issues must be determined. There are a few constraints to the property (high pressure gas line, ingress/egress to highway, etc.) but these are issues which must be addressed and given the size of the area can be readily mitigated—the key will be to maximize useable land area.

Other engineering issues consist of utilities ... what are the current capacities? How much will be needed? What is the most efficient use of configuration? Where will they be located? Should the electric be above or below ground? What are the costs? Also, from a soils and structural standpoint — what is the content and consistency of the soil? How much grading needs to be done? Can the grading be contained from one phase to the next? The answer to these questions and many more cannot begin to be answered until a team is put together and directed by the development manager. Upon completion of the infrastructure analysis by the engineers a very clear and specific report must be generated so that all appropriate parties understand what utilities must be planned and also so potential that companies understand what they can expect.

MARKETING

In many organizations, particularly municipalities, the area of marketing is probably the most needed and the least understood. In the case of KAIP, there has been more planning and reporting than “grass roots” marketing. The analysis is important, but if the project is to succeed now is the time to set out a specific plan, budget funds to implement the plan, assign individuals and get to work. The marketing will be an ongoing process and everyone including the “community-at-large” must understand their role in helping build the community. It is a tireless task and one may not see results for a year or two ... it is creating an awareness that Kutno exists ... it is knowing very specifically who and what your competition has to offer ... it is meeting with State officials (PAIZ, etc.), foreign embassies, professionals (law and accounting firms), major companies (to determine suppliers, needs and wants) ... it is attending trade and industry fairs ... it is holding ground breakings and inviting key business and civic leaders throughout Poland. It is not just printing a brochure and doing some advertising, in fact, advertising is a poor medium in marketing real estate. Given the limited budget, it will be important to get successful businesses financially involved, or to work with the Province or other cities in joint promotions. Public Relations is a very important part of the program, particularly with the community, state and local officials.

Target Market: It has been determined that the target market is small to mid-size companies employing 100-400 people. I also believe that given the make-up of existing labor (i.e. predominantly unskilled) companies most suited to the area will be labor intensive—assembly or light manufacturing. The textile industry in Lodz could be a good example—typically, “cut and sew” operations are labor intensive. There has been some discussion of the “food processing” industry, which could be an excellent target; however, I would not limit my audience to any particular industry—unless it was a polluting industry, in which case I would exclude.

I would also look at the major industries and companies in the nearest large cities (Warsaw and Lodz), determine what similarities there are and approach some of these companies or suppliers who want less expensive labor or want a central location to service both of these markets. *These are all good ideas, but someone has to take action.* No company is going to drive past Kutno and knock on your door and ask to buy a piece of land!

While I was in Warsaw, I met with an acquaintance who works for the Danish Embassy. She indicated that a past associate of hers works for Castrol who is planning on closing the warehouses in Warsaw and Poznan and consolidating someplace in the middle—why not KAIP? My contact at the embassy is: Izabela Klebek, Commercial Officer: Ph. (22) 49-00-56; the contact at Castrol is: Jacek McDuebe Ph. (22) 642-1572. Here is a lead—someone should follow it up.

My meetings also took me to the U.S. Department of Commerce, and although my contact was not aware of Kutno he was interested in learning more about Kutno and KAIP. By the end of our meeting he indicated he had recently received a request from a U.S. company seeking information on where they could do metal fabricating with labor rates under \$450 per month. What better place than KAIP? My contact is: Mr. Alain Bobet, Commercial Attache, (22)625-4374. Someone should follow up and meet with Mr. Babet, invite him to meet the Mayor, and keep him informed of Kutno’s progress.

Another meeting with Mr. Jan Krysiuk, Finance Manager of Polfa, (which was set up by Marek Rutowicz) was very enlightening as to their progress. Knowing that one of their investors is the Polish-American Fund, it might be appropriate for Mr. Krysiuk to introduce this group to Kutno as they may have some other companies that need less expensive labor or a more centrally located operation. The Polish-American Fund should definitely be put on your mailing list”.

These are three examples of activities the “Development Team” must undertake in order for KAIP to be successful. Everyone in the business community and local government must become missionaries spreading the word of Kutno and feeding the “leads” to the “Development Team” to follow up.

RECOMMENDATIONS AND ACTION PLAN

Commitment from City Council

- The City Council should pass a resolution for the creation of KAIP (which can legally be used to form an “assessment district”); it should budget funds for “Pre-development Activities” and approve the appointment of a “Development Team”.
- Complete Acquisition of Land

Development Team (Month 1-3)

- Land Use and Technical Issues — Negotiate & Coordinate:
 - Engineering of Phase I
 - Pre-Engineering Phases II-IV
 - Land Use Consultant
 - Complete Site Plan
- Marketing
 - Develop and Implement Measurable “Marketing Action Plan” (Public Relations, Trade Shows, Community Involvement, Database, Newsletter)
 - Complete Competition Report (Sites Available, Price, Infrastructure, Benefits)
 - Target Market Report (Key Industries and Suppliers: Names of Companies and Contacts)
 - Meetings with Influential People (Embassies, PAIZ, Lawyers, Accountants)
 - Complete “Company Package”

Development Team (Month 4-12)

- Financing
 - Complete “Financing Package”
 - Secure Funding
- Land Use and Technical
 - Commence Construction on Phase I
- Marketing
 - Continue Marketing Plan (Ground Breaking Party for Influential People)



Other Recommendations

- **KAIP Above Politics.** This is a community project, for everyone's benefit. It is also a long term project (10-15 years); therefore, those in office now will not be in office as successes and failures occur. Everyone must be supportive of the project if it is to succeed.
- **Momentum.** Although there will be defeats along the way, keep the momentum going. As they say ... "When the going gets tough, the tough get going!"
- **Services.** Encourage the development of services ... hotels, restaurants, office supplies. Businessmen can quickly sense the vitality of a city through observance of these activities.
- **Town Square.** This is the "image" of the city—if possible, set up an "assessment district" or community project to clean-up and fix-up the town square.
- **Education.** This is a "key" element in the continued prosperity of any city, province or country. Promote education to the fullest, bring higher education to the city—another telltale sign to companies looking for the right city to locate.

THE ROLE OF THE DEVELOPMENT TEAM

Objective

Maximize "employment opportunities" for Kutno's citizens through the effective development and marketing of Kutno Agro-Industrial Park.

Goals

- Identify target Market
- Research Methods of Financing for Infrastructure
- Effectively Manage the Development & Marketing of KAIP

Responsibilities

- Competition and Market Analysis
- Preparation of "Financial Package" and "Company Package"
- Project Team Management
- Financial Reporting to City
- Community Relations
- Marketing
- Public Relations

ATTACHMENT

**MATERIALS DEVELOPED AND UTILIZED
DURING WORK IN KUTNO, POLAND**